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WRITTEN TESTIMONY of  
Kevin Lembo  
State Comptroller

Appropriations Committee  
April 5, 2011

Concerning

**SB 68** AA Requiring the State to Use Generally Accepted Accounting Principles (GAAP); **SB 180** AAC the use of Generally Accepted Accounting Principles (GAAP) by the State; **HB 5655** AA Requiring the State to use Generally Accepted Accounting Principles (GAAP); **HB 5811** AAC the Implementation of GAAP Accounting; **HB 5650** AAC Transfers of General Fund Surplus to the Budget Reserve Fund; **HB 6271** AAC the Budget Reserve Fund; **SB 1124** AAC the Budget Reserve Fund

Good Afternoon Senator Harp, Representative Walker, Senator Kane, Representative Miner and members of the Appropriations Committee. For the record, I am Comptroller Kevin Lembo. I am here to testify in support of bills concerning Generally Accepted Accounting Principles (GAAP) and the Budget Reserve Fund.

**GAAP Legislation (SB 68, SB 180, HB 5655, HB 5811)**

These bills focus on converting the budget to GAAP, which would bring the budget into conformance with GAAP financial reporting. The Comptroller's Office has been preparing audited GAAP based financial reports for over 22 years.

In its simplest terms, GAAP requires expenditures to be counted when goods or services are received; and revenues are to be counted when they are earned, measurable and available. Under GAAP, the budget picture cannot be improved by

delaying the payment of bills by a day (deferring payment from June 30<sup>th</sup> to July 1<sup>st</sup>) or by counting revenues that have not yet been earned.

GAAP provides an apples-to-apples comparison between fiscal years and therefore provides greater budget transparency. Further, the state's bond rating agencies would view conversion to GAAP budgeting in a positive light, which would help to keep State borrowing costs low.

Because GAAP has historically recognized more spending in a fiscal year than the current method of budgeting, conversion has a budgetary cost. The net annual impact of the GAAP budget conversion is estimated to be \$100 million, which is an average of the growth rate in the GAAP deficit over time. This figure will change year-to-year based on actual state spending patterns and is not an additional budget cost; rather, it is the proper recognition of a cost that already occurred. A strategy needs to be put into place as quickly as possible to alleviate the accumulated GAAP deficit.

The Comptroller's Office has already been working in conjunction with Office of Policy and Management (OPM), the Treasurer, Office of Fiscal Analysis (OFA) and the State Auditors to produce a responsible plan for GAAP budget implementation that will lay out implementation specifics as well as required statutory changes.

#### **Budget Reserve Fund (HB 5650, HB 6271, SB 1124)**

These bills would help to strengthen the Budget Reserve Fund (aka the Rainy Day Fund) and help the State to be better equipped in guarding against future economic downturns. In February of this year, the Center on Budget and Policy Priorities released a report that noted rainy day funds capped at a level of 10 percent of the budget or less to be inadequate potentially resulting in accumulating insufficient reserves. The report goes further to identify 15 percent of the budget as a more adequate level.

As we work to alleviate the current budget deficit, the lesson is clear: having higher reserves gives the State more flexibility to respond to evolving budget needs. I urge your favorable consideration of this legislation. Thank you, and I am pleased to answer any questions you may have for me today.